Department for Education

Early Years Funding Formulae Consultation Webinars

13 and 14 July 2022

Q&A

For Local Authorities

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Funding and Funding Rates

Q. Will the 23-24 increase be applied to LAs who haven't received an uplift on the 3- and 4-year-old entitlement in the last few years?

A. Yes, we propose to remove the current loss cap and apply the same protections to all LAs - so those LAs who had previously been on the loss cap will see their funding rate increase in 2023-24.

Q. Will the increase in funding rates be enough to meet cost pressures, including the increase in the National Living Wage?

And

Q. Will there be any consideration to increasing funding for 2023/24 given the significant inflationary cost pressures (well above 3%) that early years providers are facing, particularly in relation to pay, energy and food?

Answer to both. We recognise this is a challenging time for the sector. We have a quantum for 2023/24 that was agreed with the Treasury at Spending Review 2021 - we announced that we are investing additional funding for the early years entitlements worth £160m in 2022-23, £180m in 2023-24 and £170m in 2024-25, compared to the 2021-22 financial year. This is for local authorities to increase hourly rates paid to childcare providers for the government's free childcare entitlement offers and this investment reflects cost pressures and changes in the number of eligible children anticipated at the time of the SR.

It is important to note that the number of children is forecast to decrease across this period. This is driven by ONS data, which projects a decrease in the 0 – 4-year-old population of around 5% from mid-2022 to mid-2025; this is key information that needs to be taken into consideration in order to provide an accurate picture of what the funding settlement means.

The proposals in the consultation don't have any impact on the overall investment already announced. We are working within that same quantum. The reforms are about distributing that funding in the fairest way possible. Given current pressures it is important that we press ahead now.

We expect to announce the early years funding rates for local authorities for 2023-24 next autumn in the normal way (and the following autumn for 2024-25).

Q. Would you agree that the significant numbers of LAs receiving the minimum funding indicates that the EYNFF formula is underfunded? This also affects the LAs that are capped to pay for the protection.

A. The EYNFF produces a "true funding rate" for each authority for the - & 4-year-old entitlement – we then propose to top up this funding rate out of the same pot of funding, to bring every LA up to the minimum funding floor.

Q. Will you ensure the 2's rate is to be higher than the universal/extended for 3/4's?

A. Our illustrative modelling for 2023-24 rates shows that all LAs true/formula-driven hourly funding rates for 2-year-olds are higher than their 3- and 4-year-old hourly funding rate. It is the addition of protections that sees 7 LAs 3- and 4-year-old rate increase above their 2-year-old rate.

Q. If you have a 3-year SR settlement, why aren't LA's given longer term rates (i.e., more than 1 year at a time)?

A. ONS data projects a decrease in the 0 – 4-year-old population of around 5% from mid-2022 to mid-2025; this is key information that needs to be taken into consideration in order to provide an accurate picture of what the funding settlement means.

Shifting future demographics therefore make it unrealistic to calculate hourly funding rates more than one year in advance.

Q. Schools got a supplementary grant to cover the additional ERNIC cost from April. Is there any grant for EYs?

A. At SR21, the government confirmed it would compensate public sector organisations for the employer costs associated with the Health and Social Care Levy.

This is not available to private early years providers, however, at SR21 the government also announced significant levels of additional funding for the early years entitlements worth £160m in 2022-23, £180m in 2023-24 and £170m in 2024-25, compared to the 2021-22 financial year. This reflects cost pressures and changes in the number of eligible children anticipated at the time of the SR.

The Government has announced a freeze to the business rates multiplier in 2022-23. This will support all ratepayers, including early years businesses, ahead of the revaluation in 2023, and is a tax cut worth £4.6 billion to business over the next 5 years.

Q. A London question -- boundaries are very close, there is no incentive for providers to set up in lower funded LA, when just on the same road they can attract much higher funding.

A. The Early Years National Funding Formula (EYNFF) has been designed to allocate our record investment in early years entitlement funding fairly and transparently across the country. The proposed updates to the formulae will help to ensure funding rates reflect current needs, which vary from authority to authority.

Q. Is the London Living Wage used for LAs in London please?

A. No.

Q. Are there plans to review the income threshold for 2YO entitlement eligibility which hasn't changed since 2014 and means families who would previously have qualified are falling out of eligibility? Clearly there's a funding implication if/when this is rectified.

A. This consultation is about the distribution of the entitlements funding. We are not consulting on the eligibility criteria for the entitlements, and so there are no proposals included here which relate to changes to eligibility.

Q. When will final funding rates for 2023-24 be confirmed?

A. We will confirm final LA hourly funding rates for 2023-24 as soon as we can in the autumn, following the outcome of the consultation.

EYNFF - Base Rate

Q. How was the base rate within the EYNFF designed?

A. The universal base rate is designed to fund the core costs of childcare provision which do not vary by local area. 89.5% of the total funding for three- and four-year olds is channelled through this base rate. As set out in our 2016 consultation, ahead of the introduction of the EYNFF, this approach was informed by the Cost of Childcare Review. We believe that this approach continues to be appropriate to ensure sufficient basic funding for each child, while also ensuring adequate levels of funding are channelled to those with additional needs.

The base rate has not been updated since the formula was introduced in 2017. Between 2017-18 and 2019-20, local authorities protected by transitional protections saw those protections unwind, whilst rates remained the same for other local authorities. Since 2020-21, we have provided local authorities with fixed pence uplifts to their hourly rates, rather than using the formula to calculate an updated rate. In 2023-24 we are proposing to return to using the formula which means that the base rate will be updated.

Additional Needs Factors

Q. What age cohort do you use for DLA measure?

A. The proposal is to use 3- and 4-year-old children who are entitled to DLA to construct the revised measure.

Q. Can we have a bit more information on rates (NNDR). How exactly is

this calculated?

A. We currently use rateable values data for PVIs as a proxy for premises related costs within the ACA. The data we use is provided by the Valuation Office Agency (VOA). The consultation proposes the inclusion of Infant and Primary school rateable values as provided by the VOA. The technical document accompanying the consultation sets out how these are calculated within the formula. The accompanying step by step modelling published alongside the consultation has an 'ACA' tab which also provides further details.

Q. How will you measure EAL?

A. EAL is based on a proxy measure based on data collected for primary age school pupils. Page 10 of the technical note provides further information about this factor and a link to the statistical publication that includes the data used for this measure.

Q. Is all of the increase for 2YO driven through the ACA? Table indicates least deprived LAs receive biggest gain, and most deprived are on floor.

A. At the Spending Review 2021 we announced that we are investing additional funding for the early years entitlements worth £160m in 2022-23, £180m in 2023-24 and £170m in 2024-25, compared to the 2021-22 financial year. This additional funding has driven the increase in all LAs 2-year-old hourly funding rates. The proposed changes to the ACA in the 2-year-old formula (inclusion of premises costs and changes to the weightings) cause greater geographical variation in hourly rates however, this is to ensure the funding is distributed fairly across the country.

Q. Has the Department completed analysis on the difference between using 0-5 years DLA claimants compared with the proposal to use number of - & 4-year-olds eligible? If so, is it more or less?

A. The method for determining how much funding is distributed through the DLA factor has not changed – it remains at 1% of the total allocation total. The proposed change relates to how this funding is allocated to local authorities and we are proposing to use an eligibility rather than a take-up based measure and an age range that is more closely aligned with the age group who benefit from the 3- and 4-year-old childcare entitlements.

Q. Why Jan data when all Schools DSG data is October and you're using school pupil data?

A. The EY census is carried out at the same time as the schools census in January to reflect that this is the 'mid point' of the EY academic year and the fairest point at which to measure attendance.

Q. Does using the schools FSM data to include part time nursery children give the best picture for this EYE funding - would using FSM

from school and the EYPP in the PVI numbers provide a more accurate value?

A. We use a proxy measure based on FSM data for older cohorts of children as there is no comprehensive FSM data available for children across all early years' settings. We use an eligibility-based measure for FSM, that has very similar eligibility criteria to EYPP, as this reduces the risk of introducing any bias that may be present in take up based measures due to differences in the propensity of parents to take up their entitlement.

Q. Why is the number of children with SEND (as returned in the annual EY Census) not being used to inform the rate for Additional Needs in addition to DLA? This would give a more accurate year on year picture.

A. The additional needs uplift in the EYNFF is intended to reflect the costs of providing the entitlements to disadvantaged children, as well as children with SEND. We consider that using the proxy measures of Free School Meals, English as an Additional Language and Disability Living Allowance affords the most appropriate spread across both those needs.

Q. The Schools National Funding Formula recognises rural sparsity, however the EYNFF has no recognition of this. Are there any plans to review this position?

A. Rurality or sparsity is already a discretionary supplement which local authorities may, in line with published guidance (here), use to benefit providers serving rural areas less likely to benefit from economies of scale.

Q. What is the source of the population data used?

A. Details of the data used across the three formulae (EYNFF, 2YO and MNS) can be found in the consultation document and in Annex A of the technical note published on https://consult.education.gov.uk/funding-policy-unit/early-years-funding-formulae-2022/

Area Cost Adjustment - Staffing

Q. Can you explain why 13-14 staffing data is still the most recent available?

And

Q. The increase in cost of living is relevant now - it wasn't so relevant in 2013-14. The sector has huge issues around recruitment if a staff base rate that isn't up to date is used, this will impact on recruitment and retention. a change in a year or 2 could be too late for some settings.

Answer to both. The government fully understands the challenges that currently face businesses – including nurseries and other early years providers. We continue to engage with sector stakeholders and local authorities to monitor dynamics with local markets, parents' access to the government's entitlements and the childcare they require, and the sustainability of the sector.

DLUHC published updated 2021 GLM data on 29 March 2022. However, we are not using these figures for the 2023-24 National Funding Formulae and are instead continuing to use the previously available GLM data for 2013-14. The method of compiling the recent GLM data was different compared to the 2013-14 figures, and there has not been sufficient time to make the new data compatible with the existing ACA methodology in the NFFs. We aim to use the new GLM data in the NFFs for 2024-25.

Q. Staffing costs is collected by Coram through the childcare survey each year- could that not be used as a measure rather than data from 2013-2014?

A. We are committed to ensuring that all our formulas are using the best available data. This means not only the latest data but also data where we can be confident in its quality, completeness, and continued collection. Therefore, our preferred approach is to use data published by government departments.

Q. If 83% is based on the staffing costs are you expecting there to be a large jump in the base rate once the more up to date data is available? How will this work if the next 3 years funding has already been announced?

A. All else being equal, the base rate will increase if the new data shows a reduction in the geographical variation in the general labour market (GLM) cost adjustment measure (current range for the GLM relative measure: 1 to 1.3) and vice versa if the new data shows an increase in geographical variation. See the 'ACA' sheet within the step-by-step spreadsheet for more detail on how staffing cost data is used in the calculation of the area cost adjustment (ACA) factor.

Q. Would this not be a great opportunity for DfE to review staffing costs to ensure the rates reflect staffing, inflation and increased business costs? Why wait for DLUHC? Seems the key to getting this right with ratio, children being truly educated and aid recruitment.

A. We propose to keep the current GLM measure as we believe it is still the best proxy for staff related costs. The variation in staffing costs currently carry an 80% weighting within the area cost adjustment, compared to a 10 % weighting for premises costs. This reflects the broad split in provider costs that we have seen consistently across research.

Q. Where 2YOs are in schools, the staffing cost of delivery is higher -

how will this be taken into account?

A. For most LAs, 2yo funding rates reflect the higher costs of delivering the entitlement compared to the 3&4 year old offer.

Area Cost Adjustment - Premises

Q. How will you collect the floor area of each setting?

A. The Value Office Agency (VOA) collect the floor area data and share this with DFE at an aggregate level for each local authority for schools and PVIs separately.

Q. Will you include outdoor space? Some deliver forest provision outside.

A. The floor area data used to construct the infant and primary schools' rates cost adjustment (IPRCA) measure in the illustrative modelling is predominantly based on the gross internal area (GIA) of the school buildings, but the data does include a small proportion of outdoor space, e.g., tarmac sports surfaces and 3G playing surfaces etc. We will be continuing to work with VOA to refine our use of school and nursery rateable valuation and floor space data.

Q. The business rates were subsidised during covid so what affect will this have on the premises factor?

A. We use rateable values data, rather than business rates bills, and so the business rates holiday which the government provided during Covid does not have any impact.

Q. If the premises factor is based on the rateable value of nursery premises, how would this work for childminders?

A. The rateable values data provided by the VOA does not include childminders. This has always been the case, and so our proposed changes to the ACA do not affect this.

Teachers Pay and Pension Grants

Q. If we are distributing the Teachers Pay and Pension Grants as a supplement will the % we can distribute as supplements increase from the current 10% or will the Teachers Pay and Pension grants be outside of the 10%?

A. Any distribution of the rolled in TPPG grant would fall under the current rules around local supplements. We are not proposing to change any of the local funding rules, which includes the 10% cap on supplements. There is a question on the consultation about this proposal, so we welcome views there.

Q. Are LAs expected to only pay the rolled in teachers' pay and pensions funding to teacher led provision, or could this be rolled out across the entire sector including PVIs?

A. The proposal is to amend the operational guidance on the quality supplement to "encourage LAs to consider using this supplement to take account of additional pressures that some providers might face, from, for example, the need to pay employer contributions to the teachers' pension scheme". This could therefore include cost pressures faced by PVIs in relation to Qualified teaching staff, as well as within maintained nurseries.

Q. Can you share details of the initial rationale for TPPG?

A. Since 2018, school-based nurseries and maintained nursery schools have received the Teachers' Pay Grant (TPG) and since 2019 they have also received the Teachers' Pension Employer Contribution Grant (TPECG), in addition to their free entitlements funding. These grants were introduced to provide support to schools with respect to the 2018 and 2019 teachers' pay awards, and to support schools and local authorities with the cost of the 2019 increase in employer contributions to the teachers' pension scheme.

Q. Should LAs ringfence the amount of funding we receive that will replace the TPG and TPECG and pay as a quality supplement to the maintained schools only? Will this include Academies as well?

A. We do not propose that the grant funding be ringfenced. The proposal is to encourage LAs to "consider using this supplement to take account of additional pressures that some providers might face, from, for example, the need to pay employer contributions to the teachers' pension scheme". This could therefore include cost pressures faced by PVIs in relation to Qualified teaching staff, as well as maintained nurseries.

Q. How can we consult with Schools and Early Years settings on supplementary funding re TPPG when we won't know the outcome of the consultation late in the autumn term and we have to set budgets early in the new year?

A. We recognise the need to confirm the outcome of the consultation, as well as the final funding rates for 2023-24 as quickly as possible.

Q. How will the teachers pay and pensions grant be included in the hourly rates?

A. From the 2023-24 financial year we are proposing to mainstream the early years elements of this funding, bringing early years in line with schools and high needs, to streamline the system to make it easier for institutions to manage their finances.

We propose to roll the majority of the money which is currently distributed through the teachers' pay and pensions grants into the overall quantum of the 3- and 4-year-old entitlements funding, and then we will use this new quantum in the updated formula to calculate local authority hourly rates for 2023-24.

To limit the extent of the changes in distribution of the grant, we propose to include each local authorities' indicative 2022-23 teachers' pay and pensions grants funding within the baseline against which we apply protections for 2023-24.

Protections

Q. So protection would only last for one year? for those who had cap on gains does that mean from 2024/25--they would get full gain?

A. We are proposing protections for 2023-24, which will mean that all local authorities see their funding rates increase by at least 1% compared with their 2022-23 rate, with the majority expected to see greater funding rate increases.

We expect to announce the early years funding rates for local authorities for 2024-25 in autumn 2023, in the normal way. Any further protections to funding rates would also be confirmed at that stage.

Q. Once there is no protection on the changes in rates for an LA - is there likely to be a reduction in the hourly rate that is passed onto settings by these LA's?

A. Local authorities are responsible for setting individual provider funding rates in consultation with their providers and schools forum, and fund providers using their local funding formula.

We are proposing protections for 2023-24, which will mean that all local authorities see their funding rates increase by at least 1% compared with their 2022-23 rate, with the majority expected to see greater funding rate increases.

We expect to announce the early years funding rates for local authorities for 2024-25 in autumn 2023, in the normal way. Any further protections to funding rates would also be confirmed at that stage.

Q. Is the intention to have the year-to-year protection and the gains cap in place each year or just for the next financial year? If it is each year, will the percentages used change or be the same each year?

A. The illustrative rates and protections that are being consulted on are for 2023-24 only, and final arrangements for 2023-24 will be confirmed in Autumn

22 in the normal way. The hourly rates and any changes to protections for 2024-25 will be confirmed in Autumn 23.

MNS Specific

Q. Why is MNS supplementary funding only paid on the universal 15 hours? Why not on the additional 15 hours?

A. Since the introduction of the EYNFF, local authorities have received supplementary funding for maintained nursery schools on top of their EYNFF allocation, to protect their MNS funding at their 2016-17 level for the universal 15 hours for three- and four-year-olds. This supplementary funding is based on the amount each LA was spending on its MNSs in 2016-2017.

This pre-dated the introduction of the additional 15 hour entitlements for working parents (30 hours).

Q. It would be better if MNS supplementary funding was provided as a lump sum, rather than being tied to headcount. Is this something the DfE has considered?

A. We are proposing reforms to the distribution of supplementary funding to correct the most extreme outliers. We are not proposing to change the way in which we distribute this funding i.e., we will continue to distribute supplementary funding as an hourly rate.

Q. could this mean MNS get additional TPPG based on the hourly rate formula is a quality supplement applied and through the MNS?

A. We propose to change local (non-statutory) funding guidance to LAs by updating the language in the operational guide regarding the quality supplement, which is one of the existing discretionary supplements that local authorities can choose to include in their local funding formula. We would encourage LAs to consider using this supplement to take account of additional pressures that some providers might face, from, for example, the need to pay employer contributions to the teachers' pension scheme.

We would encourage LAs to take account of the fact that the MNS element of this funding has been rolled into MNS supplementary funding when deciding how best to use the quality supplement.

Q. Does this mean that MNS supplementary funding is now confirmed over the long term, rather than having to be reviewed each year?

A. MNS supplementary funding is as secure, over the long term, as the other EY funding streams. As with all elements of the early years budget, arrangements for the financial years after this are subject to discussion at the next Spending Review.

Q. Are there any plans to relieve maintained nurseries of paying business rates in line with maintained school?

A. The hourly rate paid to local authorities for the early education entitlements is intended to reflect staff and non-staff costs including business rates. In addition, MNSs receive supplementary funding in recognition of their constitution as maintained schools and the additional costs this entails.

Business rates are charged on most non-domestic properties, including schools. Local authorities receive funding for business rates through the national funding formula, to meet the full costs of schools' business rates. The DfE introduced a streamlined process for National Non-Domestic Rates (NNDR) from April 2022 to reduce burdens on local authority maintained schools and academies. The new process involves ESFA making NNDR payments on behalf of its schools directly to billing authorities who have adopted the new NNDR payment process. The revised payment process currently remains optional for billing authorities to implement. Billing authorities adopting the new payment process submit rates claims and any in year adjustments for their schools using the new NNDR service. There are no changes for those billing authorities continuing with the existing process. MNS are not part of this process, and there are no plans to change this at this time.

Q. As far as I am aware, the area cost adjustment has not been included in the MNS supplementary funding formula - is that something that could be reviewed?

A. Since the introduction of the EYNFF, local authorities have received supplementary funding for maintained nursery schools on top of their EYNFF allocation, to protect their MNS funding at their 2016-17 level for the universal 15 hours for three- and four-year-olds. This supplementary funding is based on the amount each LA was spending on its MNSs in 2016-2017, and is not driven by a formula, which is why there is no area cost adjustment applied to this funding.

Q. What are the criteria for the MNS supplementary funding?

A. MNS supplementary funding was introduced alongside the EYNFF in 2017-18, to protect MNS' funding at their 2016-17 level for the universal 15 hours. Only LAs with open maintained nursery schools are eligible.

Q. Does the MNS £3.80 floor rate include the TPPG allocation?

A. Yes, that is correct. The 'MNS 2023-24' tab of the step-by-step tables published alongside the consultation can provide further detail on the order in which proposed reforms will be applied.

Q. Does this mean that the two LAs whose funding will be reduced will receive £10?

A. Yes that is correct - £10 per MNS hour for the universal 15 hours. We recognise that this may be a challenge but is still 2.5 times higher than the floor we have set. We are happy to continue discussions with the LAs in question.

Q. This reduction in funding is quite significant for the two LAs being affected, so a gradual decrease in funding would needs to be considered to enable these LAs to plan long term with the MNS. Could that be taken into consideration?

A. We are proposing to introduce a cap which will impact the two highest funded local authorities for MNS supplementary funding, Westminster and Hampshire. Westminster currently receives an MNS supplementary funding hourly rate of £12.76 and Hampshire receive £10.27, which is significantly higher than most other LAs, given the average supplementary hourly funding rate is currently just over £3 and some LAs don't currently receive any supplementary funding for their MNSs. We are proposing to cap the hourly rate at £10, to start to correct the unevenness of the distribution without causing too significant a cut – as these two LAs will still receive an hourly rate of more than 2½ times the minimum.

However, we welcome feedback on our proposed reforms through responses to the consultation. We will confirm final arrangements for 2023-24 in the autumn, following the closure of the consultation.

Local Rules

Q. Will there be the expectation that we introduce premises to our formulas?

A. No. We are not proposing to change local formula rules. Our consultation is focused on national formulae only.

Q. As schools business rates are paid directly they do not need to cover this from their EY funding rate. If business rates for PVIs are included in area cost adjustment it would be helpful to include an option to add a premises supplement so that a supplement could be paid to PVI for the business rates that they pay a % of from the EY funding that they receive.

A. The early years national funding formula for the 3-4-year-old entitlements already includes a premises element. Consultation proposals include the introduction of a new premises element into the 2-year-old formula, in recognition of the costs faced by providers. We are not proposing to change local formula rules. Our consultation is focused on national formulae only.

Admin

Q. Would the EY Census be used or a termly information gathering to calculate?

A. Local authorities will not be asked to provide any additional data as a result of any of the proposals in the consultation. The sources of data that will be used in the formula are set out in the accompanying technical note.

Q. When will the outcome of the consultation be published?

A. The consultation will close on 16 September. The Government response will be published shortly after, later in the Autumn.

Q. Assuming yet another change in ministers in the DfE in September when we have a new PM what are the chances of this consultation being ignored by the new ministers and a different route taken?

A. The consultation continues to be live and we will respond as planned in the autumn.

Q. Who do we contact to discuss the 10% cap?

A. There is a specific question related to this in the consultation. Any questions related to the consultation should be addressed to eynff.consultation@education.gov.uk

Q. Where can we find the funding tables?

A. The step-by-step tables which include illustrative rates for 2023-24 can be found using the following link: https://consult.education.gov.uk/funding-policy-unit/early-years-funding-formulae-2022/